



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

Quillayute Valley School District No. 402

Clallam County

For the period September 1, 2013 through August 31, 2014

Published May 28, 2015

Report No. 1014332





Washington State Auditor

May 28, 2015

Board of Directors
Quillayute Valley School District No. 402
Forks, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Quillayute Valley School District No. 402's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

Quillayute Valley School District No. 402
Clallam County
September 1, 2013 through August 31, 2014

The results of our audit of Quillayute Valley School District No. 402 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

Federal Awards

Internal Control Over Major Programs:

- *Significant Deficiencies:* We identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to its major federal program.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
84.010	Title I, Part A Cluster - Title I Grants to Local Educational Agencies

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The District qualified as a low-risk auditee under OMB Circular A-133.

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

Quillayute Valley School District No. 402 Clallam County September 1, 2013 through August 31, 2014

2014-001 The District did not have adequate controls to ensure compliance with federal allowable activities requirements.

CFDA Number and Title: 84.010 Title I, Part A, Grants to Local Educational Agencies
Federal Grantor Name: U.S. Department of Education
Federal Award/Contract Number: NA
Pass-through Entity Name: Office of Superintendent of Public Instruction
Pass-through Award/Contract Number: NA
Questioned Cost Amount: \$26,076

Description of Condition

The District spent \$443,739 in Title I, Part A grant funds during school year 2014, of which \$356,258 of those costs were for employee salaries and benefits. The objective of the Title I program is to improve the teaching and learning of children who are at risk of not meeting state academic standards and who reside in areas with high concentrations of low-income families.

Federal regulations require recipients of federal money to establish and follow internal controls to ensure compliance with program requirements. These controls include knowledge of grant requirements and monitoring of program controls.

We found the District had charged three administrators' time to the grant. School administrators' time is considered a general government cost and their time may not be charged to federal awards pursuant to the supplement not supplant provision. The only exception to this rule is when any such official has specific program administration or direct student service duties and documents actual time spent in the performance of those duties by completing monthly time and effort records. Such officials include superintendents, assistant superintendents, building principals, assistant building principals and support staff for those positions.

The District could not support these charges to the grant. We consider this control weakness to be a significant deficiency.

Cause of Condition

The District lacked knowledge regarding the circumstances under which administrators can be charged to a federal grant.

Effect of Condition and Questioned Costs

The District charged administrator time to the grant when they were performing general government duties, as per their job descriptions. This resulted in the District charging unallowable costs to the grant in the amount of \$26,076.

Recommendation

We recommend the District establish and follow internal controls to ensure compliance with federal requirements, to include:

- Dedicating resources to provide training to employees to ensure only allowable costs are charged to the grant.
- Ensuring effective monitoring procedures are in place to detect transactions that are unallowable.

District's Response

For the 2013-14 school year, the District charged a minimal amount of three administrators' time to Title I funds (a total of 7.5% of their time and for allowable costs). However, the District did not complete the required Time and Effort documents. Beginning in the 2014-15 school year, the District no longer charged administrative time to the Title I grant.

Auditor's Remarks

We appreciate the District's response and will follow-up with this issue in our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of

contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

U.S. Office of Management and Budget Circular A-87, Cost Principles for State, Local and Indian Tribal Governments (2 CFR Part 225), Appendix B, Section 19(a) General government expenses states:

a. The general costs of government are unallowable (except as provided in Attachment B, section 43, Travel costs). These include:

(1) Salaries and expenses of the Office of the Governor of a State or the chief executive of a political subdivision or the chief executive of federally recognized Indian tribal government;

(2) Salaries and other expenses of a State legislature, tribal council, or similar local governmental body, such as a county supervisor, city council, school board, etc., whether incurred for purposes of legislation or executive direction;

(3) Costs of the judiciary branch of a government;

(4) Costs of prosecutorial activities unless treated as a direct cost to a specific program if authorized by program statute or regulation (however, this does not preclude the allowability of other legal activities of the Attorney General); and

(5) Costs of other general types of government services normally provided to the general public, such as fire and police, unless provided for as a direct cost under a program statute or regulation.

Office of Superintendent of Public Instruction Time and Effort Frequently Asked Questions:

Administrators

F-1 Q: Can administrators charge time to federal programs?

A: Yes and no.

Federal program directors may charge time to federal programs as long as they maintain monthly time and effort documentation reflecting actual time worked on each federal and state program under their supervision.

Chief Executive Officials are considered a general government cost and generally may not charge time to federal awards (pursuant to the supplement, not supplant provision). The only exception to this rule is when any such official has specific program administration or direct student service duties **and** documents actual time spent in the performance of those duties by completing monthly time and effort records.

F-2 Q: Who are chief executive officials?

A: Chief executive officials are:

Superintendents

Assistant Superintendents

Building Principals

Assistant Building Principals

Support staff for these positions

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in internal controls over compliance in its *Codification of Statements on Auditing Standards*, section 935, as follows:

.11 For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows:

Material weakness in internal control over compliance.

A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Remote. The chance of the future event or events occurring is slight.

Probable. The future event or events are likely to occur.

Significant deficiency in internal control over compliance. A deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Quillayute Valley School District No. 402
Clallam County
September 1, 2013 through August 31, 2014**

Board of Directors
Quillayute Valley School District No. 402
Forks, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Quillayute Valley School District No. 402, Clallam County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 13, 2015. As discussed in Note 1 to the financial statements, during the year ended August 31, 2014, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency,

or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

May 13, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

**Quillayute Valley School District No. 402
Clallam County
September 1, 2013 through August 31, 2014**

Board of Directors
Quillayute Valley School District No. 402
Forks, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of Quillayute Valley School District No. 402, Clallam County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program

occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on this major federal program for the year ended August 31, 2014.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001 that we consider to be significant deficiencies.

District's Response to Findings

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

May 13, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Quillayute Valley School District No. 402 Clallam County September 1, 2013 through August 31, 2014

Board of Directors
Quillayute Valley School District No. 402
Forks, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Quillayute Valley School District No. 402, Clallam County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 19.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Accounting Manual for Public School Districts in the State of Washington* (Accounting Manual) described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant account estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinion on Regulatory Basis of Accounting (Accounting Manual)

As described in Note 1, the District has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the Accounting Manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The difference in these accounting practices is also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Quillayute Valley School District No. 402, as of August 31, 2014, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Unmodified Opinions on the Governmental and Fiduciary Funds Based on U.S. GAAP

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General, ASB, Debt Service, Capital Project, Transportation Vehicle and Fiduciary funds as of August 31, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedules of Long-Term Liabilities are also presented for purposes of additional analysis, as required by the prescribed Accounting Manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

May 13, 2015

FINANCIAL SECTION

Quillayute Valley School District No. 402
Clallam County
September 1, 2013 through August 31, 2014

FINANCIAL STATEMENTS

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Quillayute Valley School District No. 402

Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	1,579,267.55	10,831.89	0.00	2,309.38	0.00	0.00	1,592,408.82
Minus Warrants Outstanding	-1,574,192.55	-2,031.89	0.00	-2,309.38	0.00	0.00	-1,578,533.82
Taxes Receivable	230,497.48		335,270.51	0.00	0.00	0.00	565,767.99
Due From Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due From Other Governmental Units	201,640.66	0.00	0.00	0.00	0.00	0.00	201,640.66
Accounts Receivable	10,305.82	0.00	0.00	0.00	0.00	0.00	10,305.82
Interfund Loans Receivable	0.00			0.00			0.00
Accrued Interest Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	73,681.89	0.00					73,681.89
Prepaid Items	0.00	0.00		0.00	0.00	0.00	0.00
Investments	3,321,173.64	79,531.82	1,356,919.86	404,551.84	200,418.68	0.00	5,362,595.84
Investments/Cash With Trustee	0.00		0.00	0.00	0.00	0.00	0.00
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
TOTAL ASSETS	3,842,374.49	88,331.82	1,692,190.37	404,551.84	200,418.68	0.00	6,227,867.20
LIABILITIES:							
Accounts Payable	220,770.53	0.00	0.00	122,479.12	0.00	0.00	343,249.65
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	0.00	0.00		0.00			0.00
Anticipation Notes Payable	0.00		0.00	0.00	0.00	0.00	0.00
Payroll Deductions and Taxes Payable	837.00	0.00		0.00			837.00
Due To Other Governmental Units	457.42	0.00		0.00	0.00	0.00	457.42
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00

The accompanying notes are an integral part of this financial statement.

Quillayute Valley School District No. 402

Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
LIABILITIES:							
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Unearned Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
TOTAL LIABILITIES	222,064.95	0.00	0.00	122,479.12	0.00	0.00	344,544.07
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unavailable Revenue - Taxes Receivable	230,497.48		335,270.51	0.00	0.00		565,767.99
TOTAL DEFERRED INFLOWS OF RESOURCES	230,497.48	0.00	335,270.51	0.00	0.00	0.00	565,767.99
FUND BALANCE:							
Nonspendable Fund Balance	73,681.89	0.00	0.00	0.00	0.00	0.00	73,681.89
Restricted Fund Balance	64,297.32	88,331.82	1,356,919.86	59,204.69	200,418.68	0.00	1,769,172.37
Committed Fund Balance	1,260,506.00	0.00	0.00	0.00	0.00	0.00	1,260,506.00
Assigned Fund Balance	1,000,000.00	0.00	0.00	222,868.03	0.00	0.00	1,222,868.03
Unassigned Fund Balance	991,326.85	0.00	0.00	0.00	0.00	0.00	991,326.85
TOTAL FUND BALANCE	3,389,812.06	88,331.82	1,356,919.86	282,072.72	200,418.68	0.00	5,317,555.14
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	3,842,374.49	88,331.82	1,692,190.37	404,551.84	200,418.68	0.00	6,227,867.20

The accompanying notes are an integral part of this financial statement.

Quillayute Valley School District No. 402
Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	790,853.05	120,190.06	1,087,332.67	1,750.17	225.99		2,000,351.94
State	22,753,167.02		288,323.78	0.00	73,017.40		23,114,508.20
Federal	1,648,353.96		0.00	0.00	0.00		1,648,353.96
Federal Stimulus	0.00						0.00
Other	190,678.70			0.00	0.00	0.00	190,678.70
TOTAL REVENUES	25,383,052.73	120,190.06	1,375,656.45	1,750.17	73,243.39	0.00	26,953,892.80
EXPENDITURES:							
CURRENT:							
Regular Instruction	16,289,101.72						16,289,101.72
Federal Stimulus	0.00						0.00
Special Education	2,949,711.24						2,949,711.24
Vocational Education	413,575.93						413,575.93
Skill Center	80,292.74						80,292.74
Compensatory Programs	1,680,036.24						1,680,036.24
Other Instructional Programs	58,303.69						58,303.69
Community Services	70,445.06						70,445.06
Support Services	3,498,906.15						3,498,906.15
Student Activities/Other		127,441.96				0.00	127,441.96
CAPITAL OUTLAY:							
Sites				0.00			0.00
Building				87,225.14			87,225.14
Equipment				131,357.54			131,357.54
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					133,415.11		133,415.11
Sales and Lease				0.00			0.00
Other	169,747.18						169,747.18
DEBT SERVICE:							
Principal	0.00		575,000.00	16,149.39	0.00		591,149.39
Interest and Other Charges	0.00		563,628.50	11,947.89	0.00		575,576.39
Bond/Levy Issuance				0.00	0.00		0.00
TOTAL EXPENDITURES	25,210,119.95	127,441.96	1,138,628.50	246,679.96	133,415.11	0.00	26,856,285.48

The accompanying notes are an integral part of this financial statement.

Quillayute Valley School District No. 402

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	172,932.78	-7,251.90	237,027.95	-244,929.79	-60,171.72	0.00	97,607.32
OTHER FINANCING SOURCES (USES):							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		0.00	212,377.19	0.00		212,377.19
Transfers Out (GL 536)	-212,377.19		0.00	0.00	0.00	0.00	-212,377.19
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	587.00		0.00	0.00	909.48		1,496.48
TOTAL OTHER FINANCING SOURCES (USES)	-211,790.19		0.00	212,377.19	909.48	0.00	1,496.48
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-38,857.41	-7,251.90	237,027.95	-32,552.60	-59,262.24	0.00	99,103.80
BEGINNING TOTAL FUND BALANCE	3,428,669.47	95,583.72	1,119,891.91	314,625.32	259,680.92	0.00	5,218,451.34
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	3,389,812.06	88,331.82	1,356,919.86	282,072.72	200,418.68	0.00	5,317,555.14

The accompanying notes are an integral part of this financial statement.

Quillayute Valley School District No. 402
Statement of Fiduciary Net Position
Fiduciary Funds
August 31, 2014

	Private Purpose Trust	Other Trust
ASSETS:		
Imprest Cash	0.00	0.00
Cash On Hand	0.00	0.00
Cash On Deposit with Cty Treas	45,644.54	0.00
Minus Warrants Outstanding	-1,008.65	0.00
Due From Other Funds	0.00	0.00
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	0.00	0.00
Investments	0.00	0.00
Investments/Cash With Trustee	0.00	0.00
Other Assets	0.00	0.00
Capital Assets, Land	0.00	0.00
Capital Assets, Buildings	0.00	0.00
Capital Assets, Equipment	0.00	0.00
Accum Depreciation, Buildings	0.00	0.00
Accum Depreciation, Equipment	0.00	0.00
TOTAL ASSETS	44,635.89	0.00
LIABILITIES:		
Accounts Payable	0.00	0.00
Due To Other Funds	0.00	0.00
TOTAL LIABILITIES	0.00	0.00
NET POSITION:		
Held in trust for:		
Restricted for Other Items	0.00	0.00
Restricted for Self Insurance	0.00	0.00
Restricted for Uninsured Risks	0.00	0.00
Nonspendable -- Trust Principal	0.00	0.00
Committed to Other Purposes	0.00	0.00
Held In Trust For Private Purposes	44,635.89	0.00
Assigned to Fund Purposes	0.00	0.00
Held In Trust For Pension And Other Employee Benefits	0.00	0.00
Unassigned Fund Balance	0.00	0.00
TOTAL NET POSITION	44,635.89	0.00

The accompanying notes are an integral part of this financial statement.

Quillayute Valley School District No. 402
 Statement of Changes in Fiduciary Net Position
 Fiduciary Funds
 For the Year Ended August 31, 2014

ADDITIONS:			
Contributions:			
Private Donations	3,945.00	0.00	0.00
Employer		0.00	0.00
Members		0.00	0.00
Other	0.00	0.00	0.00
TOTAL CONTRIBUTIONS	3,945.00	0.00	0.00
Investment Income:			
Net Appreciation (Depreciation) in Fair Value	0.00	0.00	0.00
Interest and Dividends	0.00	0.00	0.00
Less Investment Expenses	0.00	0.00	0.00
Net Investment Income	0.00	0.00	0.00
Other Additions:			
Rent or Lease Revenue	0.00	0.00	0.00
Total Other Additions	0.00	0.00	0.00
TOTAL ADDITIONS	3,945.00	0.00	0.00
DEDUCTIONS:			
Benefits		0.00	0.00
Refund of Contributions	0.00	0.00	0.00
Administrative Expenses	0.00	0.00	0.00
Scholarships	4,667.00	0.00	0.00
Other	3,829.39	0.00	0.00
TOTAL DEDUCTIONS	8,496.39	0.00	0.00
Net Increase (Decrease)	-4,551.39	0.00	0.00
Net Position--Beginning	49,187.28	0.00	0.00
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00
NET POSITION--ENDING	44,635.89	0.00	0.00

The accompanying notes are an integral part of this financial statement.

QUILLAYUTE VALLEY SCHOOL DISTRICT No. 402
Notes to Financial Statements
September 1, 2013 through August 31, 2014

Note 1 - Summary of Significant Accounting Policies

The Quillayute Valley School District is a municipal corporation organized pursuant to Title 28A *Revised Code of Washington* (RCW) for the purpose of providing public school services to students in grades K-12. Oversight responsibility for the district's operations is vested with the independently elected board of directors. Management of the district is appointed by and is accountable to the board of directors. Fiscal responsibility, including budget authority and the power to set fees, levy property taxes, and issue debt consistent with provisions of state statutes, also rests with the board of directors.

The District presents governmental fund financial statements and related notes on the modified accrual basis of accounting in accordance with Accounting Manual for Public School Districts in the State of Washington, issued jointly by the State Auditor's Office and the Office of Superintendent of Public Instruction by the authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A.505.010(1) and RCW 28.505.020. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

1. District wide statements, as defined in GAAP, are not presented.
2. A schedule of Long-Term Liabilities is presented as supplementary information.
3. Supplementary information required by GAAP is not presented.

Fund Accounting

Financial transactions of the District are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures as appropriate. All funds are considered major funds. The various funds in the report are grouped into governmental and fiduciary funds as follows:

GOVERNMENTAL FUNDS

General Fund

This fund is used to account for all expendable financial resources, except for those that are required to be accounted for in another fund. In keeping with the principle of having as few funds as are necessary, activities such as food services, maintenance, data processing, printing, and student transportation are included in the General Fund.

Capital Projects Funds

These funds account for financial resources that are to be used for the construction or acquisition of major capital assets. These are two funds that are considered to be of the capital projects fund type: The Capital Projects Fund and the Transportation Vehicle Fund.

Capital Projects Fund - This fund is used to account for resources set aside for the acquisition and construction of major capital assets such as land and buildings.

Transportation Vehicle Fund - This fund is used to account for the purchase, major repair, rebuilding, and debt service expenditures that relate to pupil transportation equipment.

Debt Service Fund

This fund is used to account for the accumulation of resources for and the payment of matured general long-term debt principal and interest.

Special Revenue Fund

In Washington State, the only allowable special revenue fund for school districts is the Associated Student Body (ASB) Fund. This fund is accounted for in the District's financial statements as the financial resources legally belong to the District. As a special revenue fund, amounts with the ASB Fund may only be used for those purposes that relate to the operation of the Associated Student Body of the District.

Permanent Funds

These funds are used to report resources legally restricted such that only earnings, and not principal, may be expended. Amounts in the Permanent Fund may only be spent in support of the District's programs and may not be used to the benefits of any individual.

FIDUCIARY FUNDS

Fiduciary funds include private-purpose trust funds and are used to account for assets that are held in trust by the district in a trustee and agency capacity.

Private-Purpose Trust Fund – This fund is used to account for resources that are legally held in trust by the District. The trust agreement details whether principal and interest may both be spent, or whether only interest may be spent. Money from a Private-Purpose Trust Fund may not be used to support the District's programs, and may be used to benefit individuals, private organizations, or other governments.

Measurement focus, basis of accounting and fund financial statement presentation

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered "measurable" if the amount of the transaction can be readily determined. Revenues are considered "available" when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are not collected within 60 days after year-end. Property taxes receivable are measurable but not available and are, therefore, not accrued. Categorical program claims and interdistrict billings are measurable and available and are, therefore, accrued.

Expenditures are recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for unmatured principal and interest on long-term debt which are recorded when due. Purchases of capital assets are expensed during the year of acquisition. For federal grants, the recognition of expenditures is dependent on the obligation date. (Obligation means a purchase order has been issued, contracts have been awarded, or goods and/or services have been received.)

Budgets

Chapter 28A.505 RCW and Chapter 392-123 Washington Administrative Code (WAC) mandate school district budget policies and procedures. The board adopts annual appropriated budgets for all governmental funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Appropriations lapse at the end of the fiscal period.

Budgets are adopted on the same modified accrual basis as used for financial reporting. Fund balance is budgeted as available resources and, under statute, may not be negative, unless the District enters into binding conditions with state oversight pursuant to RCW 28A.505.110.

The government's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The District receives state funding for specific categorical education-related programs. Amounts that are received for these programs that are not used in the current fiscal year may be carried forward into the subsequent fiscal year, where they may be used only for the same purpose as they were originally received. When the District has such carryover, those funds are expended before any amounts received in the current year are expended.

Additionally, the District has other restrictions placed on its financial resources. When expenditures are recorded for purposes for which a restriction or commitment of fund balance is available, those funds that are restricted or committed to that purpose are considered first before any unrestricted or unassigned amounts are expended.

The government's fund balance classifications policies and procedures.

The District classifies ending fund balance for its governmental funds into five categories.

Nonspendable Fund Balance

The amounts reported as Nonspendable are resources of the District that are not in spendable format. They are either non-liquid resources such as inventory or prepaid items, or the resources are legally or contractually required to be maintained intact.

Restricted Fund Balance

Amounts that are reported as Restricted are those resources of the District that have had a legal restriction placed on their use either from statute, WAC, or other legal requirements that are beyond the control of the board of directors. Restricted fund balance includes anticipated recovery of revenues that have been received but are restricted as to their usage.

Committed Fund Balance

Amounts that are reported as Committed are those resources of the District that have had a limitation placed upon their usage by formal action of the District's board of directors. Commitments are made either through a formal adopted board resolution or are related to a school board policy. Commitments may only be changed when the resources are used for the intended purpose or the limitation is removed by a subsequent formal action of the board of directors.

Assigned Fund Balance

In the General Fund, amounts that are reported as Assigned are those resources that the District has set aside for specific purposes. These accounts reflect tentative management plans for future financial resource use such as the replacement of equipment or the assignment of resources for contingencies. Assignments reduce the amount reported as Unassigned Fund Balance, but may not reduce that balance below zero.

In other governmental funds, Assigned fund balance represents a positive ending spendable fund balance once all restrictions and commitments are considered. These resources are only available for expenditure in that fund and may not be used in any other fund without formal action by the District's board of directors and as allowed by statute.

The Board of Directors are the only persons who have the authority to create Assignments of fund balance.

Unassigned Fund Balance

In the General Fund, amounts that are reported as Unassigned are those net spendable resources of the District that are not otherwise Restricted, Committed, or Assigned, and may be used for any purpose within the General Fund.

In other governmental funds, Unassigned fund balance represents a deficit ending spendable fund balance once all restrictions and commitments are considered.

A negative Unassigned fund balance means that the legal restrictions and formal commitments of the District exceed its currently available resources.

Cash and Cash Equivalents

All of the District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and Payables

The only receivables not expected to be collected within one year are \$4,948.42 in the General Fund.

Inventory

Inventory is valued at cost using the average cost method. The consumption method of inventory is used, which charges inventory as an expenditure when it is consumed. A portion of fund balance, representing inventory, is considered Nonspendable. Such reserves for inventory indicate that a portion of net current assets is set aside to replace or increase the inventory. USDA commodity inventory consists of food donated by the United States Department of Agriculture. It is valued at the prices paid by the USDA for the commodities.

Accounting and Reporting Changes for 2013-14

Effective for the 2013-2014 school year, the district implemented provisions of GASB Statement No. 65 Items Previously Reported as Assets and Liabilities. As of result, deferred property taxes were reclassified from liabilities to deferred inflows of resources.

Note 2 – Cash Deposits with Financial Institutions

The Clallam County Treasurer is the ex officio treasurer for the District and holds all accounts of the District. The District directs the County Treasurer to invest those financial resources of the District that the District has determined are not needed to meet the current financial obligations of the District.

All of the District’s investments (except for investments of deferred compensation plans) during the year and at year-end were insured or registered and held by the District or its agent in the District’s name.

The district’s investments as of August 31, 2014 are as follows:

	08/31/14	
	Carrying Amount	Market Value
Certificates of Deposit or Other Time Deposits	\$ 203,892.03	\$ 203,892.03
State Treasurer’s Investment Pool	\$ 5,158,703.81	\$ 5,158,703.81
TOTAL INVESTMENTS	\$ 5,362,595.84	\$ 5,362,595.84

Note 3 – Significant Contingent Liabilities

Litigation

The Quillayute Valley School District has no known legal obligations which would materially impact the financial position of the District.

Note 4 – Significant Effects of Subsequent Events

On April 22, 2014 the Quillayute Valley School District Board of Directors approved a re-organization of grade levels from K-5, 6-8, 9-12 grade bands to P-3, 4-6, 7-8 and 9-12 (Junior/Senior High) beginning in the 2014-2015 school year. The recommendation came to the board as a result of a 32-member stakeholder group that examined the academic language gap of our current student population and student achievement scores over time, as well as created a list of potential benefits and challenges with the new configuration. At the time the committee, administration, and school board recognize that making such a recommendation is the beginning of the District’s work that will need to be completed in preparation for the opening of school in September of 2014.

Note 5 – Annual Pension Cost and Net Pension Obligations

a. General Information

Substantially all District full-time and qualifying part-time employees participate in one of the following three contributory, multi-employer, cost-sharing statewide retirement systems managed by the Washington State Department of Retirement Systems (DRS): Teachers Retirement System (TRS), Public Employees’ Retirement System (PERS) and School Employees’ Retirement System (SERS). Participation in the programs was as follows:

Membership by retirement system program as of June 30, 2012:

Program	Active Members	Inactive Vested Members	Retired Members
TRS	65,357	9,545	42,918
PERS	150,590	30,515	82,242
SERS	51,558	10,920	7,651

Membership by retirement system program as of June 30, 2013:

Program	Active Members	Inactive Vested Members	Retired Members
TRS	65,935	9,823	44,220
PERS	150,706	31,047	85,328
SERS	52,295	11,588	9,079

Data is as of last actuarial valuation date of June 30, 2013

Certificated public employees are members of TRS. Non-certificated public employees are members of PERS (if Plan 1) or SERS.

Plan 1 under the TRS and PERS programs are defined benefit pension plans whose members joined the system on or before September 30, 1977. Plan 1 members are eligible to retire with full benefits after five years of credited service and attainment of age 60, after 25 years of credited service and attainment of age 55, or after 30 years of credited service.

Plan 2 under the TRS or SERS programs are defined benefit pension plans whose members joined on or after October 1, 1977, but before June 30, 1996 or August 31, 2000, for TRS or SERS programs, respectively. Members of TRS and SERS are eligible to retire with full benefits after five years of credited service and attainment of age 65 or after 20 years of credited service and attainment of age 55 with the benefit actuarially reduced from age 65, or 30 years of credited service and receive either a reduced benefit or stricter return-to-work rules.

Plan 3 under the TRS and SERS programs are defined benefit, defined contribution pension plans whose members joined on or after July 1, 1996, or September 1, 2000, for TRS and SERS, respectively. Members are eligible to retire with full benefits at age 65 or they may retire at age 55 with at least ten service years with a reduced benefit amount, or they may retire at age 55 with at least 30 service years and receive either a reduced benefit or stricter return-to-work rules.

Average final compensation (AFC) of Plan 1 TRS and PERS members is the highest average salary during any two consecutive years. For Plan 2 and Plan 3 TRS and SERS members, it is the highest average salary during any five consecutive years.

The retirement allowance of Plan 1 TRS and PERS members is the AFC multiplied by 2 percent per year of service capped at 60 percent with a cost-of-living adjustment. For Plan 2 TRS and SERS members, it is the AFC multiplied by 2 percent per year of service with provision for a cost-of-living adjustment. For the defined benefit portion of Plan 3 TRS and SERS it is the AFC multiplied by 1 percent per year of service with a cost-of-living adjustment.

The employer contribution rates for PERS, TRS, and SERS (Plans 1, 2 and 3) and the TRS and SERS Plan 2 employee contribution rates are established by the Pension Funding Council based upon the rates set by the Legislature. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at 6 percent and does not vary from year to year. The employer rate is the same for all plans in a system. The methods used to determine the contribution requirements are established under chapters 41.40, 41.32, and 41.35 RCW for PERS, TRS and SERS respectively.

The district contribution represents its full liability under all systems, except that future rates may be adjusted to meet the system needs.

b. Contributions

Employee contribution rates effective September 1, 2013 through August 31, 2014:

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	4.96%	Plan 2 SERS	4.64%
Plan 3 TRS and SERS 5.00% (minimum), 15.00% (maximum)			

For Plan 3 TRS and SERS, rates adjusted based upon age may be chosen. The optional rates range begins at 5 percent and increases to a maximum of 15 percent.

Employer contribution rates effective September 1, 2013 through August 31, 2014:

Plan 1 TRS	10.39%	Plan 1 PERS	9.21%
Plan 2 TRS	10.39%	Plan 2 SERS	9.82%
Plan 3 TRS	10.39%	Plan 3 SERS	9.82%

Under current law, the employer must contribute 100 percent of the employer required contribution. Employer required contributions in dollars (Participant information for all plans is as of August 31):

<u>Plan</u>	<u>FY 2013-2014</u>	<u>FY 2012-2013</u>	<u>FY 2011-2012</u>
Plan 1 TRS	\$ 7,063.90	\$ 5,400.67	\$ 5,382.83
Plan 2 TRS	\$ 168,206.28	\$ 113,001.92	\$ 96,103.56
Plan 3 TRS	\$ 363,739.60	\$ 292,453.62	\$ 305,691.61
Plan 1 PERS	\$ 6,933.22	\$ 5,234.82	\$ 5,186.04
Plan 2 SERS	\$ 134,857.24	\$ 94,449.34	\$ 88,450.95
Plan 3 SERS	\$ 101,894.03	\$ 83,228.58	\$ 85,103.87

Historical trend information showing TRS, PERS and SERS progress in accumulating sufficient assets to pay benefits when due is presented in the State of Washington's comprehensive annual financial report. Refer to this report for detailed trend information. It is available from:

State of Washington
 Office of Financial Management
 300 Insurance Building
 PO Box 43113
 Olympia, WA 98504-3113

Note 6 – Annual Other Post-Employment Benefit Cost and Net OPEB Obligations

The State, through the Health Care Authority (HCA), administers an agent multi-employer Other Post-Employment Benefit plan. The Public Employees Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. Programs include (medical, dental, life insurance and long-term disability insurance).

Employers participating in the plan include the State of Washington (which includes general government agencies and higher education institutions), 57 of the state's K–12 school districts and educational service districts (ESDs), and 206 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 247 K–12 school districts and ESDs. The District's retirees are eligible to participate in the PEBB plan under this arrangement.

According to state law, the Washington State Treasurer collects a fee from all school district entities which have employees that are not current active members of the state Health Care Authority but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the state Health Care Authority. For the fiscal year 2013-14, the District was required to pay the HCA \$64.40 per month per full-time equivalent employee to support the program, for a total payment of \$772.80. This assessment to the District is set forth in the State's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

The District has no control over the benefits offered to retirees, the rates charged to retirees, nor the fee paid to the Health Care Authority. The District does not determine its Annual Required Contribution nor the Net Other Post-Employment Benefit obligation associated with this plan. Accordingly, these amounts are not shown on the financial statements. This is a departure from GAAP.

Note 7 – Commitments under Non-Capitalized (Operating) Leases

The District leases its copiers for a lease term of 60 months and 84 months with a purchase option at the end of that term. The leases are through a KCDA purchasing contract and an Interlocal Agreement through the Seattle School District.

In the 2006-07 school year the District entered into an agreement with Siemens Building Technologies for the acquisition and purchase of certain energy conservation measures. A Master Equipment Conditional Sales Agreement with Banc of America Public Capital Corp was entered into for financing the project. The energy savings from the lighting and water conservation measures will offset an operating transfer from the General Fund which will provide for the payments to be made in the Capital Projects Fund.

For the fiscal year ended August 31, 2014 the district had incurred additional long-term debt as follows:

Lessor	Amount	Annual Installment	Final Installment Date	Interest Rate	08/31/14 Balance Due
Lease-Purchase Commitments					
QBSI-Xerox Lease 2014	\$20,529.00	\$ 4,106	19-May		\$19,844.92
Xerox Corp - Copy Machine Lease (2014)	\$71,636.04	\$ 11,093	21-Mar		\$73,031.24
Xerox Corp - Copy Machine Lease (2013)	\$10,426.20	\$ 2,085	17-Nov		\$ 8,862.03
Xerox Corp - Copy Machine Lease (2013)	\$63,593.40	\$ 1,839	18-Jul		\$ 7,201.50
Xerox Corp - Copy Machine Lease (2012)	\$49,813.20	\$ 9,963	17-Nov		\$32,378.77
Xerox Corp - Copy Machine Lease (2012)	\$33,904.80	\$ 6,781	17-Dec		\$15,822.19
Xerox Corp - Copy Machine Lease (2011)	\$33,817.80	\$ 6,764	16-Nov		\$15,217.90
Xerox Corp - Copy Machine Lease (2011)	\$116,111.85	\$ 21,823	16-May		\$38,190.48
Xerox Corp - Copy Machine Lease (2009)	\$106,410.48	\$ 2,510	14-May		\$ -
Xerox Corp - Scan	\$ 3,600.60	\$ 1,272	14-May		\$ -
Total Lease-Purchase Commitments	\$509,843.37				\$210,549.03
Other Long-Term Commitments					
Banc of America - Siemens Bldg Technologies	\$292,937.49	\$11,625-\$36,527	02/24	7.1916%	\$248,920.48
Total Other Long-Term Commitments	\$292,937.49				\$248,920.48

Note 8 – Construction and Other Significant Commitments, Including Encumbrances, if Appropriate

The Quillayute Valley School District has three construction projects in progress. The replacement of Forks High School (Phase II), the Auxiliary Gym Re-Roof Project at the High School, and the Re-Roof Project at the ILC Building. The District also committed to a Playground Installation Project, Drop-off Zone Project, and a Computer Lab Project, all for the Forks Intermediate School due to restructuring of grade levels beginning in the 2014-15 school year.

The High School Replacement project was estimated to be \$19,027,100 with revenues estimated at \$8,800,000 from OSPI State match dollars and the balance from the QVSD 2009 capital bond issue. The Board of Directors approved the final acceptance of the Forks High School Addition Project on March 25, 2014 and the remaining bond proceeds of \$59,204.69 are to be directed to purchase and install security cameras in the High School as part of this project.

The Auxiliary Gym Re-Roof Project was estimated to be \$200,000 with local funds to be directed to the Capital Projects Fund. The project was completed in the 2012-13 school year with retainage released in the 2013-14 school year.

The Re-Roof Project at the ILC Building was estimated to be \$50,877.16 with local funds to be directed to the Capital Projects Fund.

The Intermediate School Playground Equipment Project at the Forks Intermediate School was estimated to be \$130,394.56 with local funds to be directed to the Capital Projects Fund. The project includes the purchase and installation of playground equipment and fencing.

The Intermediate School Drop-off Zone Project was estimated to be \$37,148.14 with local levy funds from the General Fund. The project includes the repaving of the parking area, layout and striping of the drop-off zone and installation of a safety fence.

The Intermediate School Computer Lab was estimated to be \$24,500.00 with local levy funds from the General Fund. The project includes electrical design and circuit installation.

Construction in progress is composed of:

Project	Project Authorization Amount	Expended as of 8/31/2014	Local Funds Committed	State Funds Committed
High School Replacement Project	\$19,027,100.00	\$18,691,126.75		\$8,772,988.20
Auxiliary Gym Re-Roof Project	\$ 200,000.00	\$ 238,425.91	\$238,425.91	
ILC Re-Roof Project	\$ 50,877.16	\$ 48,931.29	\$ 48,931.29	
Playground Equipment/Installation	\$ 130,394.56	\$ 124,788.50	\$124,788.50	
Drop-off Zone Project	\$ 37,148.14	\$ 33,843.02	\$ 33,843.02	
Computer Lab Project	\$ 24,500.00	\$ 22,811.30	\$ 22,811.30	
TOTAL	\$19,470,019.86	\$19,159,926.77	\$468,800.02	\$8,772,988.20

Encumbrance accounting is employed in governmental funds. Purchase orders, contracts, and other commitments for the expenditures of moneys are recorded in order to reserve a portion of the applicable appropriation. Encumbrances lapse at the end of the fiscal year and may be re-encumbered the following year. The following encumbrance amounts were re-encumbered by fund on September 1, 2014:

Fund	Amount
General Fund	\$ 93,289.37
ASB Fund	\$ 428.23
Capital Projects Fund	\$ 5,343.64
TOTAL	\$ 99,061.24

Note 9 – Required Disclosures about Capital Assets

The district's capital assets are insured in the amount of \$36,649,544 for fiscal 2013-2014. In the opinion of the district's insurance consultant, this amount is sufficient to adequately fund replacement of the district's assets.

Note 10 – Required Disclosures about Long-Term Liabilities

Long-Term Debt

Bonds payable at August 31, 2014 are comprised of the following individual issues:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
General Obligations Bonds					
UTGO Refunded Bonds 2005	\$ 5,270,000	\$100,000-\$580,000	12/1/2017	3%-4%	\$ 2,190,000
UTGO Bonds 2009	\$11,500,000	\$80,000-1,260,000	12/1/2028	3%-4.3%	\$11,335,000
Total General Obligation Bonds					\$13,525,000

The following is a summary of general obligation long-term debt transactions of the district for the fiscal year ended August 31, 2014:

Long-Term Debt Payable at 9/1/13	\$ 14,100,000
New Issues	\$
Debt Retired	\$ 575,000
Long-Term Debt Payable at 8/31/14	\$13,525,000

The following is a schedule of annual requirements to amortize long-term debt at August 31, 2014:

Years Ending August 31,	Principal	Interest	Total
2015	\$ 610,000	\$ 540,225	\$ 1,150,225
2016	\$ 650,000	\$ 515,931	\$ 1,165,931
2017	\$ 690,000	\$ 489,888	\$ 1,179,888
2018	\$ 730,000	\$ 462,188	\$ 1,192,188
2019	\$ 770,000	\$ 432,563	\$ 1,202,563
2020-2024	\$ 4,560,000	\$ 1,644,944	\$ 6,204,944
2025-2029	\$ 5,680,000	\$ 801,796	\$ 6,481,796
TOTAL	\$ 13,690,000	\$ 4,887,534	\$ 18,577,534

At August 31, 2014, the district had \$1,356,919.86 available in the Debt Service Fund to service the general obligation bonds.

Prior-Year Defeasance of Debt

In prior years, the district defeased UTGO Bonds 1998 by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the district's financial statements. At August 31, 2014, \$2,190,000 of bonds outstanding is considered defeased.

Note 11 – Interfund Balances and Transfers

The District had no interfund loan activity in the 2013-14 school year.

Note 12 – Entity Risk Management Activities

The District is a member of one of the Washington Schools Risk Management Pool (WSRMP). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in 1986 when educational service districts and school districts in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Over 80 school and educational service districts have joined the Pool.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance, and provide related services, such as risk management. The Pool provides the following coverages for its members: property, liability, vehicle, public official liability, crime, employment practices, machinery breakdown and network security.

Members make an annual contribution to fund the Pool. The Pool acquires reinsurance from unrelated underwriters that are subject to a per-occurrence self-insured retention of \$1 million. Members are responsible for varied deductibles for both liability and property claims. Insurance carriers cover losses over \$1 million to the maximum limits of each policy. Since the Pool is a cooperative program, there is a joint liability among the participating members.

Members contract to remain in the Pool for a minimum of three years and must give notice two and one half years before terminating participation. The Interlocal Governmental Agreement is renewed automatically each year after the initial three-year period. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement if the assets of the Pool were exhausted.

The Pool is fully funded by its member participants.

The Pool is governed by a board of directors which is comprised of one designated representative from each participating member. An executive board is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool.

Note 13 – Property Taxes

Property tax revenues are collected as the result of special levies passed by the voters in the District. Taxes are levied on January 1. The taxpayer has the obligation of paying all taxes on April 30 or one-half then and one-half on October 31. Typically, slightly more than half of the collections are made on the April 30 date. The October 31 collection is not available in time to cover liabilities for the fiscal period ended August 31. Therefore, the fall portion of property taxes is not accrued as revenue. Instead, the property taxes due on October 31 are recorded as deferred revenue.

Note 14 – Joint Ventures and Jointly Governed Organizations

The Quillayute Valley School District operates a Transportation cooperative program to provide maintenance, service, and repair of vehicles and equipment to neighboring school districts and local government agencies. For fiscal year 2013-2014, these cooperative revenues totaled \$103,711.76, as compared to the preceding year revenues of \$126,219.82. Expenditures totaled \$60,808.45 as compared to the preceding fiscal year expenditures of \$86,315.65.

The Quillayute Valley School District has entered into an interlocal cooperation agreement with Port Angeles School District for the North Olympic Peninsula Skills Center to provide instruction in professional and technical programs for students in the Forks High School. For fiscal year 2013-2014, revenues totaled \$39,873.20. Expenditures totaled \$80,292.74.

The district is a member of the King County Directors' Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the Association by agreement dated August 20, 1974 and has remained in the joint venture ever since. The district's current equity of \$16,526.75 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the district compared to all other districts applied against paid administrative fees. The district may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

The Quillayute Valley School District has entered into a ten-year service agreement with K12 Virtual Schools LLC for the Quillayute Valley School District's On Line High School known as Insight School of Washington to provide a full-time, diploma granting online high school which began in the 2006-07 school year. The district enrolled and served 2,002.16 FTEs for the 2013-2014 school year in this online school equal to a total entitlement of \$11,813,417.72. According to the service agreement, the district shall retain an administrative oversight compensation, which equated to \$630,367.20.

Note 15 – Fund Balance Classification Details

The District's financial statements include the following amounts presented in the aggregate:

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund
Nonspendable Fund Balance					
Inventory and Prepaid Items	\$ 73,681.89				
Restricted Fund Balance					
Carryover of Restricted Revenues	\$ 64,297.32				
Other		\$ 88,331.82	\$1,356,919.86		
Committed Fund Balance					
Minimum Fund Balance Policy	\$1,260,506.00				
Assigned Fund Balance					
Other Capital Projects	\$1,000,000.00				
Fund Purposes				\$ 222,868.03	\$ 200,418.68
Unassigned Fund Balance	\$ 991,326.85				

In addition, the Capital Projects Fund has the following amounts in Restricted Fund Balance, based on the source of the revenues:

Restricted From Bond Proceeds	\$ 59,204.69
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The board of directors has established a minimum fund balance policy for the general fund to provide for financial stability and contingencies within the district. The policy is that the District shall end each year with the unreserved portion of the General Fund balance at least equal to 5% of that year's general fund operating expenditures. For the 2014–15 fiscal year the amount committed to this minimum fund balance policy is \$1,260,506.00, which is included in the amount reported as Committed Fund Balance on the financial statements.

Note 16 – Post-Employment Benefit Plans Other Than Pension Plans – Both in Separately Issued Plan Financial Statements and Employer Statements

457 Plan – Deferred Compensation Plan

District employees have the option of participating in a deferred compensation plan as defined in §457 of the Internal Revenue Code that is administered by the state deferred compensation plan and the District, which is administered by a third party administrator.

403 (b) Plan – Tax Sheltered Annuity (TSA)

The district offers a tax deferred annuity plan for its employees. The plan permits participants to defer a portion of their salary until future years under one type of deferral: elective deferrals (employee contribution).

The district complies with IRS regulations that required school districts to have a written plan to include participating investment companies, types of investments, loans, transfers and various requirements. The plan is administered by a third party administrator. The plan assets are assets of the District employees, not the school district, and are therefore not reflected on these financial statements.

Note 17 – Termination Benefits

Compensated Absences

Employees earn sick leave at a rate of 12 days per year up to a maximum of one contract year.

Under the provisions of RCW 28A.400.210, sick leave accumulated by District employees is reimbursed at death or retirement at the rate of one day for each four days of accrued leave, limited to 180 accrued days. This chapter also provides for an annual buy out of an amount up to the maximum annual accumulation of 12 days. For buyout purposes employees may accumulate such leave to a maximum of 192 days, including the annual accumulation, as of December 31 of each year.

These expenditures are recorded when paid, except termination sick leave that is accrued upon death, retirement, or upon termination provided the employee is at least 55 years of age and has sufficient years of service. Vested sick leave was computed using the termination payment method.

Quillayute Valley School District No. 402
 Schedule of Long-Term Liabilities: GENERAL FUND
 For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
Non-Voted Debt and Liabilities					
Capital Leases	148,582.99	165,157.05	103,191.01	210,549.03	64,453.32
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	264,038.48	0.00	21,792.22	242,246.26	44,566.69
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
Other Liabilities					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	412,621.47	165,157.05	124,983.23	452,795.29	109,020.01

The accompanying notes are an integral part of this financial statement.

Quillayute Valley School District No. 402
 Schedule of Long-Term Liabilities: DEBT SERVICE FUND
 For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
Voted Debt					
Voted Bonds	14,100,000.00	0.00	575,000.00	13,525,000.00	610,000.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
Non-Voted Debt					
Non-Voted Bonds	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	14,100,000.00	0.00	575,000.00	13,525,000.00	610,000.00

The accompanying notes are an integral part of this financial statement.

Quillayute Valley School District No. 402
 Schedule of Long-Term Liabilities: CAPITAL PROJECTS FUND
 For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
Non-Voted Debt and Liabilities					
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	265,069.87	0.00	16,149.39	248,920.48	17,751.67
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	0.00	0.00	0.00	0.00	0.00
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
Other Liabilities					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	265,069.87	0.00	16,149.39	248,920.48	17,751.67

The accompanying notes are an integral part of this financial statement.

QUILLAYUTE VALLEY SCHOOL DISTRICT NO. 402
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ending August 31, 2014

1 Federal Agency Name	2 Pass Through Agency	3 Federal Program Title	4 CFDA Number	5 Other Identification Number	6 From Direct Awards	7 Expenditures		8 Total	9 Footnote
						From Pass Through Awards	Through Awards		
U.S. Dept of Agriculture	WA OSPI	School Breakfast Program	10.553	05-402		94,801		94,801	
	WA OSPI	National School Lunch Program -Cash Assistance	10.555	05-402		264,734		264,734	
	WA OSPI	National School Lunch Program -Non Cash Assistance Food Commodities	10.555	05-402		29,052		29,052	3
	WA OSPI	Summer Food Service Program for Children School and Roads Grants to States	10.559 10.665	05-1076 N/A		6,918 63,928		6,918 63,928	5
		Dept of Agriculture Subtotal				\$ 459,434	\$	459,434	
U.S. Dept of Education	WA OSPI	Title I Grants to Local Educational Agencies	84.010A	0201465		409,673		409,673	4, 6
	WA OSPI	Title I Grants to Local Educational Agencies	84.010A	0224524		6,807		6,807	6
	WA OSPI	Title I Grants to Local Educational Agencies	84.010A	0228663		27,259		27,259	6
	WA OSPI	Migrant Education State Grant Program	84.011A	0282028		25,596		25,596	6
	WA OSPI	Special Education Grants to States	84.027A	0304657		504,309		504,309	6
	WA OSPI	Career and Technical Education Basic Grants to States	84.048	0173200		9,421		9,421	6
	WA OSPI	Indian Education Grants to Local Educational Agencies	84.060A	S060A130032		39,905		39,905	6
	WA OSPI	Special Education Preschool Grants	84.173A	0364657		16,322		16,322	6
	WA OSPI	Rural Education	84.358B	0461343		65,107		65,107	6
	WA OSPI	English Language Acquisition Grants	84.365A	0401936		21,658		21,658	6
	MEC	Mathematics and Science Partnerships	84.366B	N/A		109		109	5
	WA OSPI	Improving Teacher Quality State Grants	84.367A	0523324		45,975		45,975	6
	OESD 114	Improving Teacher Quality State Grants	84.367A	N/A		514		514	5
	OESD 114	Race to the Top Early Learning Challenge	84.412	N/A		600		600	5
		Dept of Education Subtotal				\$ 39,905	\$	1,173,255	
		TOTAL FEDERAL AWARDS EXPENDED				\$ 39,905	\$	1,632,688	

The Accompanying Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1—BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Quillayute Valley School District's financial statements. The Quillayute Valley School District uses the modified accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

NOTE 2—AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) of 2009

NOTE 3—NONCASH AWARDS

The amount of food commodities reported on the schedule is the value of food commodities distributed by the Quillayute Valley School District during the current year and priced as prescribed by USDA.

NOTE 4—SCHOOLWIDE PROGRAMS

The Quillayute Valley School District operates a "schoolwide program" in the Elementary School and Middle School. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students. The following federal program amounts were expended by the Quillayute Valley School District in its schoolwide program. Title I (84.010A) \$ 422,676.70

NOTE 5—NOT AVAILABLE (N/A)

The Quillayute Valley School District was unable to obtain other identification number.

NOTE 6—FEDERAL INDIRECT RATE

The Quillayute Valley School District used the federal restricted rate of 2.89 percent for this program.

**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED
UNDER OMB CIRCULAR A-133**

**Quillayute Valley School District No. 402
Clallam County
September 1, 2013 through August 31, 2014**

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the Quillayute Valley School District No. 402.

Finding ref number: 2014-001	Finding caption: The District did not have adequate controls to ensure compliance with federal allowable activities requirements.
Name, address, and telephone of auditee contact person: Jan Haugen, Finance Director 411 Spartan Avenue Forks, WA 98331	
Corrective action the auditee plans to take in response to the finding: <i>The District concurs to the finding.</i> <i>Corrective Action: Beginning with the 2014-15 school year, the District will ensure that Time and Effort documents are completed by any administrator coded to Title I funds with allowable costs.</i>	

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